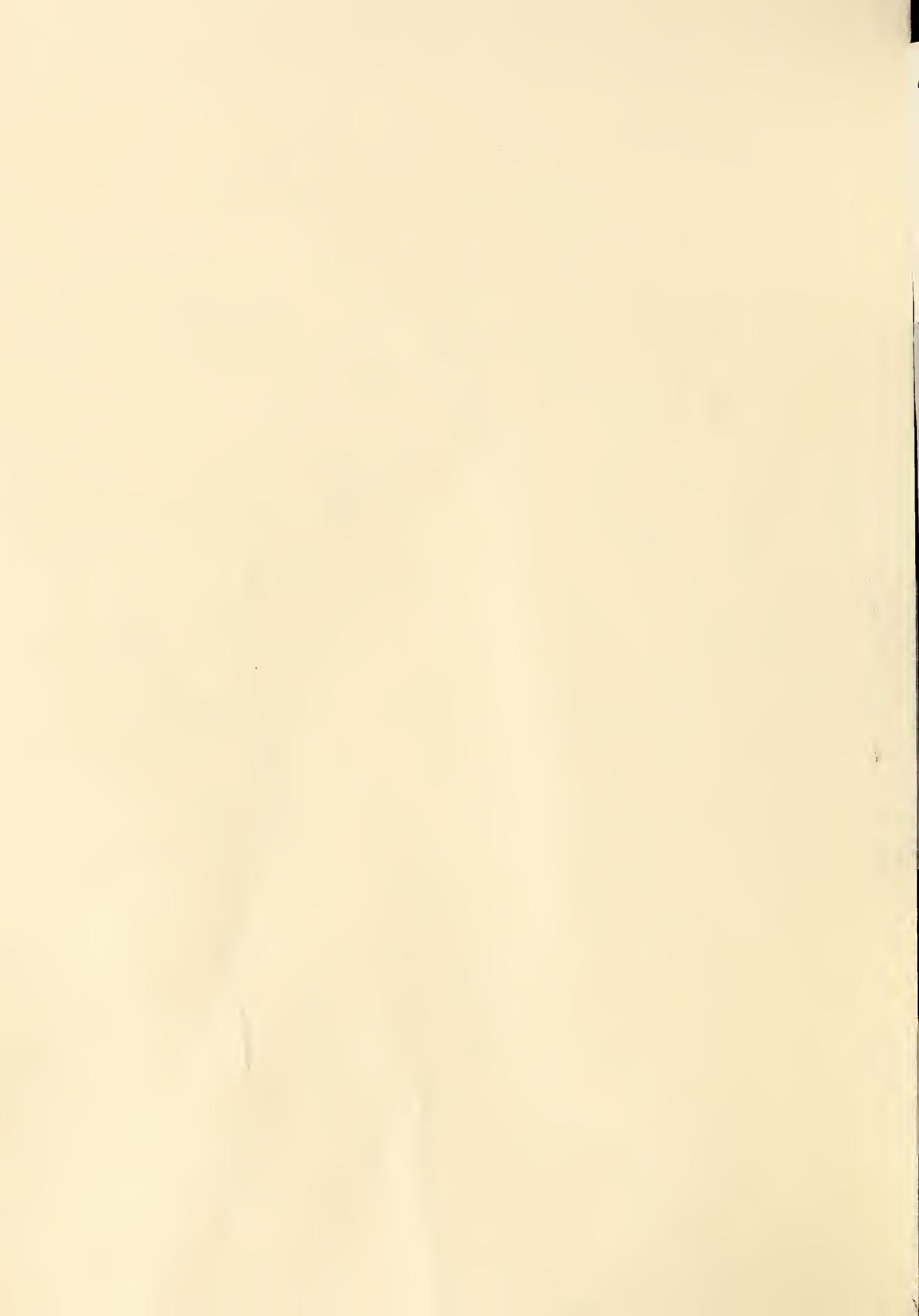


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Milk Distributors'



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Sales and Costs
July-Sept. 1963 and Oct.-Dec. 1963
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U.S. DEPARTMENT OF AGRICULTURE
Economic Research Service

MDSC No. 23

MILK DISTRIBUTORS' SALES AND COSTS

July-September 1963, October-December 1963, and Estimate for 1963

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This report is one of a series based upon information from 70 fluid milk and cream distributors. These are chiefly single-plant firms and are privately owned; they are considered to be typical. Very small firms, very large firms, national chains, and producer-distributors are not included. The distributors subscribe to a cost-comparison service which furnishes the data for USDA analysis. A uniform accounting system is used, and information is supplied on standardized forms. Data reported include: Quantities of raw milk and other raw materials and their costs, quantities of products and their prices, and operating costs.

Sales and costs for the third and fourth quarters of 1963 are based on reported data. First and second quarter sales and costs were estimated, based on the average seasonal variation for earlier years in various input factors. The yearly estimates for 1962 and 1963 are weighted averages of the 4 quarters.

Sales and Costs

Net sales receipts per 100 pounds of milk and cream processed by fluid milk distributors declined from a level slightly above \$11 in the third quarter of 1963 to \$10.88 in the fourth (table 1). During the fourth quarter, net sales receipts were at a level approximating the 1954 and 1955 yearly averages.

Costs of raw milk averaged somewhat higher in the last 2 quarters of 1963 than the first 2 quarters of 1962 and were about the same as in the last 2 quarters of 1961. Cost differences are probably due to seasonal variation in prices paid for raw milk.

Total operating costs have tended to decline from the peak in 1961. However, during the last 2 quarters of 1963, net margins were the lowest since 1952, when the series started. Costs of materials have remained about the same while net sales receipts have declined more than total operating costs; therefore, the net margins have fallen.

Net Sales Receipts

Net sales receipts per 100 pounds of milk and cream processed were estimated at \$10.93 for 1963. This is 24 cents below the estimated average in 1962 and 44 cents below 1961, the peak year of the series. The 1963 estimate is in line with the 1955 level.

Table 1.--Costs and Margins for Selected Dairy Firms: Per 100 pounds of milk and cream processed for years 1952-53 and for 6 recent quarters

Account	Yearly average						1961						1962						1963						
	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963 1/	July- Sept.	Oct.- Dec.	Jan.- Mar.	Apr.- June	July-Oct.- Sept.	Oct.- Dec.	Jan.- Mar.	Apr.- June	July-Oct.- Sept.	Oct.- Dec.			
Net sales receipts 1/	.11.32	.11.12	.10.69	.10.95	.11.22	.11.15	.11.05	.11.16	.11.25	.11.37	.11.17	.10.93	.11.37	.11.39	.11.17	.11.03	.11.06	.10.88							
Cost of materials for processing and resale:																									
Raw milk and cream...	5.85	5.43	5.07	5.12	5.39	5.23	5.13	5.10	5.11	5.02	4.98	5.01	4.90	5.18	5.09	4.68	4.95	5.08							
Other.....	.82	.86	.83	.89	.76	.77	.70	.80	.87	.95	.97	.96	1.06	.90	.87	1.04	1.02	.93							
Total.....	6.67	6.29	5.90	6.01	6.15	6.00	5.83	5.90	5.98	5.97	5.95	5.97	5.96	6.08	5.96	5.72	5.27	6.01							
Gross margins.....	4.65	4.83	4.79	4.94	5.07	5.15	5.22	5.26	5.27	5.40	5.22	4.96	5.41	5.31	5.21	5.31	5.09	4.87							
Operating costs:																									
Salaries, wages, and commissions 2/	2.15	2.19	2.21	2.28	2.43	2.50	2.56	2.61	2.62	2.67	2.55	2.43	2.71	2.62	2.54	2.55	2.49	2.36							
Containers.....	.60	.62	.65	.70	.72	.71	.70	.69	.66	.67															
Operating supplies...	.30	.32	.35	.32	.28	.29	.29	.29	.30	.30															
Repairs, rent, and depreciation.....	.50	.52	.57	.60	.64	.67	.68	.67	.66	.68															
Taxes.....	.06	.06	.06	.05	.06	.05	.06	.06	.06	.06															
Insurance.....	.02	.02	.03	.04	.04	.04	.04	.04	.04	.04															
Services.....	.16	.19	.18	.17	.17	.17	.17	.17	.18	.19															
Advertising.....	.15	.15	.16	.18	.19	.18	.18	.18	.18	.19															
General.....	.15	.13	.14	.16	.15	.16	.16	.15	.16	.15															
Total.....	4.09	4.20	4.35	4.50	4.68	4.77	4.84	4.87	4.86	4.97	4.76	5.05	4.96	4.87	4.94	4.86	4.72								
Net margins 3/	.....	.56	.63	.44	.39	.38	.38	.41	.43	.28	.20													
Firms reporting.....	.....	43	51	75	83	80	80	80	80	80	70													

1/ Gross sales receipts less discounts, allowances, and returns.

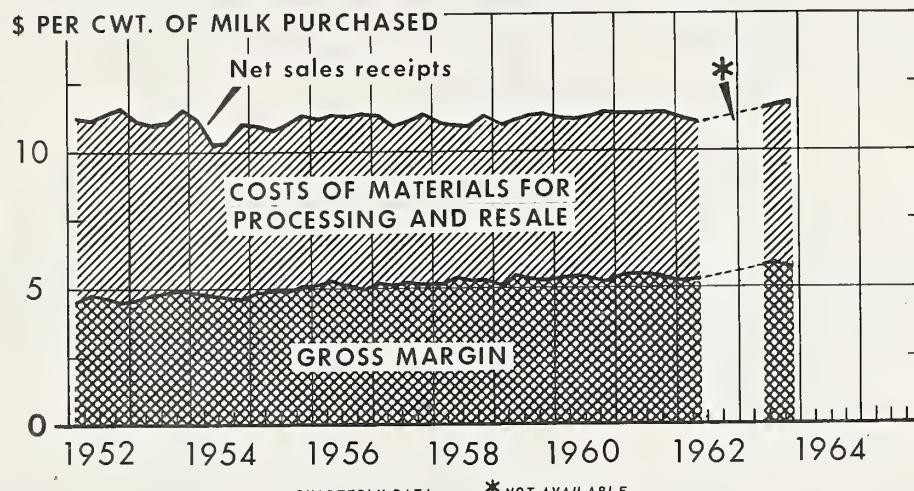
2/ Includes State unemployment, Federal old age, workmen's compensation, and employee benefits.

3/ Net returns to owners before income taxes.

4/ Estimated on the basis of available quarterly data, seasonally adjusted.

Fluid Milk Processing-Distributing Firms

**NET SALES, COST OF MATERIALS,
AND GROSS MARGIN**



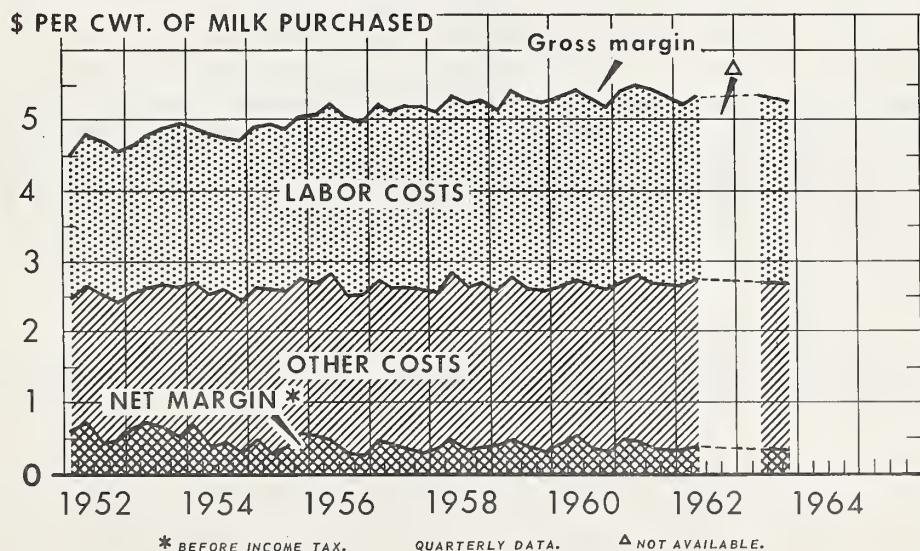
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Figure 1

Fluid Milk Processing-Distributing Firms

OPERATING COSTS



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Figure 2

Net sales receipts were \$11.06 in the third and \$10.88 in the fourth quarters of 1963. This is a range of 18 cents per 100 pounds or a decline of 1.6 percent from the third to the fourth quarter. The difference in receipts between the last 2 quarters of 1963 was due to the higher percentage of ice cream processed in the third quarter than in the fourth. The third quarter of 1963 was 31 cents below the third quarter of 1961 and 4 cents below the average of the first two quarters of 1962. The last quarter of 1963 was 51 cents below the last quarter of 1961 and 22 cents below the first two quarters of 1962. Some of these differences are probably seasonal or due to changes in container sizes.

Operating Costs

Estimated total operating costs for the year 1963 were the lowest since 1956, when they were \$4.68 per 100 pounds. Operating costs in the third quarter of 1963 compared favorably with the 4 previous quarters, while the fourth quarter of 1963 was considerably lower. It was 14 cents per 100 pounds, or 2.9 percent, below the third quarter of 1963 and 33 cents, or 6.5 percent, below the third quarter of 1961, the highest quarter shown.

The major reasons for the decline in operating costs were lower costs for salaries, wages, and commissions. These amounted to \$2.49 per 100 pounds in the third quarter and declined to \$2.36, or 13 cents less, in the fourth quarter of 1963. Salaries, wages, and commissions declined 35 cents from the third quarter of 1961 to the fourth quarter of 1963. These lower costs for salaries, wages, and commissions are probably associated with larger volumes and greater efficiency and not necessarily lower wage rates, although further study is needed for clarification.

Net margins declined to 23 cents per 100 pounds in the third quarter of 1963 and to 15 cents in the fourth quarter. The net margin in the fourth quarter of 1963 was almost 60 percent below the last 2 quarters of 1961 and the first 2 quarters of 1962.

PROCESSING COSTS FOR FLUID MILK

Processing costs of fluid milk distributors declined in most categories between 1955-58 (July 1955-December 1958) and 1960-62 (January 1960-June 1962) (table 2). General processing costs (from receiving through pasteurizing) declined 24 percent, on the average; glass bottling costs decreased 7 percent; and paper processing costs were unchanged. These changes may be due to changes in efficiency of individual distributors, to changes in the relative prices of glass bottles and paper containers, or to other factors.

Within the 1960-62 period, there apparently was a slight tendency for general processing and glass bottling costs to decline, while paper processing costs tended to rise modestly.

General costs--from receiving through homogenizing--tend to increase as the size of firm declines (table 3). Thus, large firms had an average cost of 0.36 cent per pound in 1960-62, while small firms averaged 0.15 cent higher. The variation in general costs over this period was very small except for a slight downward trend for medium-size firms. General processing costs declined for all sizes of firms between 1955-58 and 1960-62, but the decrease was sharper for large firms (27 percent) than for medium (14 percent) and small firms (6 percent).

Table 2.--Average processing costs per pound for fluid milk distributors,
1955-58 and 1960-62 1/

Period	: General	: Glass bottle	: Paper carton	: Total costs of	: Total costs of
	: processing	: processing	: processing	: processing in	: processing in
	: costs <u>2/</u>	: costs <u>3/</u>	: costs <u>4/</u>	: glass bottles <u>5/</u>	: paper cartons <u>6/</u>
:					
	<u>1960</u>	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>
Jan.-Mar. ....	.40	.86	1.36	1.26	1.76
Apr.-June ....	.40	.91	1.40	1.31	1.80
July-Sept. ....	.40	.95	1.37	1.35	1.77
Oct.-Dec. ....	.38	.85	1.37	1.23	1.75
:					
	<u>1961</u>	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>
Jan.-Mar. ....	.40	.83	1.39	1.23	1.79
Apr.-June ....	.38	.87	1.40	1.25	1.78
July-Sept. ....	.38	.88	1.39	1.26	1.77
Oct.-Dec. ....	.37	.86	1.40	1.23	1.77
:					
	<u>1962</u>	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>
Jan.-Mar. ....	.38	.84	1.41	1.22	1.79
Apr.-June ....	.39	.84	1.43	1.23	1.82
:					
Weighted average:					
1955-58.....	.51	.95	1.39	1.46	1.90
1960-62.....	.39	.87	1.39	1.26	1.78
Change.....	-.12	-.08	.00	-.20	-.12

1/ Processing costs include labor, facilities and equipment, supplies, purchased services, taxes, and containers. Quarterly data for the 1955-58 period is in "Milk Distributors' Operations, Analyses of Growth, Sales Distribution, Costs and Profits," Econ. Res. Ser., Marketing Economics Division, U.S. Dept. Agric. ERS-84, p. 43, table 16.

2/ Receiving, separating, standardizing, pasteurizing, and homogenizing.

3/ Handling, storing, washing bottles and cases, filling bottles, casing, and moving into cold room, plus bottles, caps, hoods, and cases.

4/ Handling and storing cartons and cases, filling cartons, casing, and moving to cold room plus containers and cases.

5/ General processing plus glass bottle processing.

6/ General processing plus paper carton processing.

Table 3.--General processing costs per pound for fluid milk distribution by size of firm, 1955-58 and 1960-62 1/

Period	Size of firm <u>2/</u>			All firms reporting
	Large	Medium	Small	
	<u>Cents</u>	<u>Cents</u>	<u>Cents</u>	
<u>1960</u>				
Jan.-Mar. ....	.38	.43	.50	.40
Apr.-June ....	.36	.45	.51	.40
July-Sept. ....	.35	.46	.54	.40
Oct.-Dec. ....	.33	.46	.50	.38
<u>1961</u>				
Jan.-Mar. ....	.37	.41	.51	.40
Apr.-June ....	.36	.42	.53	.39
July-Sept. ....	.36	.41	.51	.38
Oct.-Dec. ....	.34	.40	.51	.37
<u>1962</u>				
Jan.-Mar. ....	.36	.41	.49	.38
Apr.-June ....	.36	.40	.52	.39
Weighted average:				
1955-58 ....	.49	.50	.54	.51
1960-62 ....	.36	.43	.51	.39
Change	-.13	-.07	-.03	-.12

1/ General processing costs include receiving, separating, standardizing, pasteurizing, and homogenizing.

2/ Total amount of milk processed in the Jan.-Mar., 1960 quarter: Large, over 7.0 million pounds; medium, 3.0-6.9 million pounds; small, less than 3.0 million pounds.

The total costs of packaging milk in glass bottles and paper containers--general processing costs plus the bottling or packaging costs applicable to the specific container--declined for firms of all sizes between 1955-58 and 1960-62 (table 4). Glass bottling costs, including losses, declined more than those for paper packaging--17 percent for large and medium firms bottling in glass and 22 percent for small firms, compared with 1 percent for large firms packaging in paper cartons and 4-8 percent for small and medium firms.

Cost of Processing by Degree of Specialization of Firm

Distributors who specialize in processing milk in paper cartons have lower costs than firms not specializing. Thus, in the 1960-62 period, firms with the lowest costs were those with 100 percent paper operations, or 1.69 cents per pound of fluid milk (table 5). Costs were higher for all degrees of lesser specialization. For instance, they were 2.75 cents when the degree of specialization was less than 20 percent. This relatively high cost is partly the result of smaller-size firms in this group.

The effect of specialization on costs for bottling in glass is less clear, because the lowest costs per pound of fluid milk are found with 60-79 percent specialization. As specialization increases further, costs rise and at 100 percent specialization the cost was 1.35 cents, or 13 percent, above the lowest level. Further analysis will be needed to determine the reasons for this.

Paper costs were higher than glass in both periods and for the same degree of specialization. The changes at identical degrees of specialization were greater for costs of glass processing than for paper.

Washington, D. C.

August 1964

Table 4.--Costs for processing milk in glass and paper, per pound of milk and cream processed, by size of firm, 1955-58 and 1960-62

Type of packaging and period	Size of firm 1/			All firms reporting
	Large	Medium	Small	
		<u>Cents</u>	<u>Cents</u>	<u>Cents</u>
<u>Glass processing 2/</u>				
<u>1960</u>				
Jan.-Mar.	1.22	1.20	1.60	1.26
Apr.-June	1.21	1.33	1.64	1.31
July-Sept.	1.25	1.34	1.78	1.35
Oct.-Dec.	1.08	1.34	1.56	1.23
<u>1961</u>				
Jan.-Mar.	1.15	1.19	1.58	1.23
Apr.-June	1.14	1.33	1.56	1.26
July-Sept.	1.19	1.28	1.57	1.26
Oct.-Dec.	1.12	1.26	1.57	1.23
<u>1962</u>				
Jan.-Mar.	1.06	1.27	1.50	1.22
Apr.-June	1.02	1.28	1.54	1.23
Weighted average:				
1955-58	1.39	1.55	2.04	1.45
1960-62	1.15	1.29	1.58	1.26
Change	-.24	-.26	-.46	-.19
<u>Paper processing 3/</u>				
<u>1960</u>				
Jan.-Mar.	1.66	1.90	2.07	1.76
Apr.-June	1.69	1.90	2.15	1.80
July-Sept.	1.64	1.85	2.27	1.77
Oct.-Dec.	1.64	1.89	2.11	1.75
<u>1961</u>				
Jan.-Mar.	1.72	1.81	2.18	1.79
Apr.-June	1.71	1.86	2.19	1.79
July-Sept.	1.71	1.79	2.35	1.77
Oct.-Dec.	1.71	1.83	2.20	1.77
<u>1962</u>				
Jan.-Mar.	1.73	1.83	2.27	1.79
Apr.-June	1.76	1.84	2.22	1.82
Weighted average:				
1955-58	1.71	2.02	2.29	1.89
1960-62	1.70	1.86	2.19	1.78
Change	-.01	-.16	-.10	-.11

1/ Total milk processed in the Jan.-Mar., 1960 quarter. Pounds of milk processed: Large, more than 4.0 million; medium, 1.6-3.9 million; small, less than 1.6 million.

2/ Cost of handling, storing, and washing bottles and cases, filling bottles, casing and moving to cold room; general processing costs; containers and cases.

3/ Costs of handling and storing cartons and cases, filling cartons, casing and moving to cold room; general processing costs; containers and cases.

Table 5.--Costs for processing milk in paper and glass, per pound of milk and cream processed, by specialization of firm, 1955-58 and 1960-62

Period	Processing cost in paper containers for firms with-- 1/					
	Less than: 20% - 39% : 40% - 59% : 60% - 79% : 80% - 99% : 100%					
	20% paper: Cents	paper	20% paper: Cents	paper	20% paper: Cents	paper
<u>1960</u>						
Jan.-Mar.	2.86	2.06	1.77	1.75	1.70	1.68
Apr.-June	2.65	2.43	1.85	1.76	1.71	1.63
July-Sept.	3.29	2.20	1.81	1.75	1.74	1.59
Oct.-Dec.	2.14	2.23	1.87	1.74	1.69	1.56
<u>1961</u>						
Jan.-Mar.	2.87	2.03	1.80	1.73	1.73	1.71
Apr.-June	2.61	2.07	1.88	1.73	1.80	1.71
July-Sept.	3.09	1.96	1.90	1.74	1.64	1.69
Oct.-Dec.	2.83	2.03	1.86	1.71	1.74	1.68
<u>1962</u>						
Jan.-Mar.	2.83	1.94	1.93	1.68	1.81	1.78
Apr.-June	2.88	1.93	2.03	1.76	1.75	1.77
Weighted average:						
1955-58	2.66	2.22	1.99	1.89	1.84	1.82
1960-62	2.75	2.06	1.87	1.73	1.74	1.69
Change ....	.09	-.16	-.12	-.16	-.10	-.13
	Processing cost in glass bottles for firms with-- 2/					
	Less than: 20% - 39% : 40% - 59% : 60% - 79% : 80% - 99% : 100%					
	20% glass: Cents	glass	20% glass: Cents	glass	20% glass: Cents	glass
<u>1960</u>						
Jan.-Mar.	1.91	1.23	1.15	1.23	1.42	1.27
Apr.-June	1.86	1.31	1.31	1.34	1.31	1.38
July-Sept.	2.18	1.32	1.33	1.41	1.37	1.39
Oct.-Dec.	2.40	1.23	1.25	1.18	1.09	1.49
<u>1961</u>						
Jan.-Mar.	1.76	1.19	1.24	1.07	1.41	1.24
Apr.-June	1.89	1.23	1.27	1.21	1.28	1.38
July-Sept.	1.76	1.24	1.27	1.28	1.24	1.37
Oct.-Dec.	1.83	1.21	1.15	1.08	1.45	1.41
<u>1962</u>						
Jan.-Mar.	1.56	1.26	1.30	1.02	1.39	1.23
Apr.-June	1.53	1.26	1.28	1.00	1.34	1.30
Weighted average:						
1955-58	1.98	1.61	1.52	1.41	1.44	1.53
1960-62	1.83	1.24	1.26	1.17	1.33	1.35
Change	-.15	-.37	-.26	-.24	-.11	-.18

1/ Costs of handling and storing cartons and cases, filling cartons, casing and moving to cold room, general processing; and containers.

2/ Costs of handling, storing and washing bottles and cases, filling bottles, casing and moving to cold room; general processing; and containers.

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